

**FINANCIAL ACCOUNTING
FOR
NEW JERSEY CHARTER SCHOOLS**

**THE AUDIT PROGRAM
FY 2005-06**

**STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
DIVISION OF FINANCE
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SUMMARY OF SIGNIFICANT STATUTORY, REGULATORY AND POLICY ISSUES

N.J.S.A. 18A:36A-11(a)

A charter school shall operate in accordance with its charter and the provisions of law and regulation which govern other public schools except that, upon the request of the board of trustees of a charter school, the Commissioner may exempt the charter school from State **regulations** concerning public schools, except those pertaining to assessment, testing, civil rights and student health and safety, if the board of trustees satisfactorily demonstrates to the Commissioner that the exemptions will advance the educational goals and objectives of the schools. **There are no exemptions from State statutes.**

The auditor should take care in evaluating each law that may or may not be applicable to a charter school. As an example, since a charter school does not receive state aid directly, some laws applicable to state aid may not apply to a charter school.

N.J.S.A. 6A:11-7.2 – Enrollment counts, payment process and aid adjustments

Charter schools, by law, are paid a per pupil amount along with all applicable categorical aid for all students enrolled in the charter school. It is imperative that the independent auditors test the submission of the charter school enrollment counts in accordance with instructions given in the Audit Program. Both the Department of Education and the public school districts depend on the reliability of this enrollment data in determining the amount of charter school aid a charter school is entitled to.

SIGNIFICANT CHANGES FOR 2005-06

Travel Expense and Reimbursement Policy

P.L. 2005, c.132 (the 2006 Appropriations Act) provided that the Commissioner of Education may reduce State aid payments to any charter school by any amounts found to be in violation of restrictions placed on travel expenditures in accordance with regulations adopted by the commissioner. *N.J.A.C. 6A:23B-1.2(a)*, Travel and Related Expense Reimbursement, was adopted in October 2005 and requires that each charter school board of trustees adopt a formal policy and procedures pertaining to travel and expense reimbursement for its employees and board members. Auditors are asked to review the minutes of the charter school board of trustees and determine that a policy was adopted consistent with the regulations.

CAFR Reporting – Statistical Section

Guidance on the revisions required by Governmental Accounting Standards Board Statement 44 Economic Condition Reporting: The Statistical Section (GASB 44), and amendment of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles is found in the Introduction, a revised statistical section in the Outline of the CAFR and in Section III Chapter 3, “Note Disclosures and Statistical Section”. Sample statistical schedules have been prepared and will be available for download from the DOE website at <http://www.nj.gov/njded/finance/fp/cafr/>. The sample schedules meet the minimum requirements of GASB 44 issued May 2004 and effective for the year ending June 30, 2006. The statement is available from the GASB website at www.gasb.org.

OTHER CHANGES/UPDATES FOR 2005-06

The following is a summary of changes / updates highlighted throughout the document:

1. General changes are found throughout the document.
2. Specific changes are found in the following sections / chapters:

Section SA

- Annual update for revised state aid numbers and federal CFDA numbers.
- Annual update of National School Lunch Rates.

OVERVIEW

Financial Accounting for New Jersey Charter Schools, (The Audit Program) is updated annually and includes instructions for both charter school management and public school accountants regarding preparing for and performing the annual audit. The full text of The Audit Program is available on the website <http://www.nj.gov/njded/finance/sf/charter/csaudit>.

The Comprehensive Annual Financial Report (CAFR) is the basis of the annual audit. New Jersey state law and administrative code (N.J.S.A. 18A:4-14 and N.J.A.C. 6A:23-2) require charter schools to follow GAAP. These principles are augmented with the release of statements from the Governmental Accounting Standards Board (GASB). The Outline for the Comprehensive Annual Financial Report section at the end of this introduction provides information on the CAFR.

Reference Materials

There are many reference materials published by outside organizations that are available to provide guidance in report preparation. The Government Finance Officers Association (GFOA) has a publication *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "blue book" that is used nationwide as a reference tool for CAFR preparation. A revised publication, which is updated for GASB Statements, is also available through the GFOA. The American Institute of Certified Public Accountants (AICPA) issues a publication *Checklist and Illustrative Financial Statements for State and Local Governmental Units* that is a recommended reference for disclosure requirements. The Association of School Business Officials International offers a Certificate of Excellence in Financial Reporting by School Systems Program that awards certificates to those annual reports that fully meet the requirements established by GAAP and publishes a self-evaluation worksheet that may also be used as a tool in report preparation.

Responsibility/Government Auditing Standards

N.J.A.C. 6A:23-2.2 (i) requires the issuance of a CAFR by every charter school, along with interim financial statements to facilitate management control of financial operations. Financial statements are the responsibility of the charter school's management and are its representation of the financial position at a given point in time and the operations of the charter school during a period of time.

Government Auditing Standards, commonly referred to as the "Yellow Book" are applicable to organizations that expend \$500,000 or more in federal financial assistance. As required by NJ Circular Letter 04-04 OMB, New Jersey charter schools that expend \$500,000 or more in State and/or federal financial assistance in their fiscal year must also follow the Yellow Book.

Effective for audit periods beginning on or after January 1, 2003, the General Accounting Office (GAO) revised the auditor independence requirements under Government Auditing Standards. The most significant change relates to the rules associated with nonaudit and consulting services performed by those who also plan, conduct and review audit work. "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public should be free both in fact and appearance from personal, external and organizational impairments to independence." (Section 3.03).

The Department recommends that charter school management and auditors give careful consideration to this change in the independence standard and its impact on the auditors of the charter school financial Statements. In addition, the GAO has released a 2003 edition of the Government Auditing Standards, effective for audits of periods ending on or after January 1, 2004. The 2003 Revision is available electronically at their website www.gao.gov or it can be ordered from the Government Printing Office (202-512-6000). Included on their website is a list of major changes since the issuance of the 1994 version.

Submission/Reporting Package

The Department of Education requires the submission of the reports described below on or before the statutory deadline. For 2005-2006 audits, the statutory submission date is the fifth day after four months after the end of the school fiscal year. Accordingly, the deadline for submission of 2005-2006 audits is Monday, November 6, 2006. The Commissioner does have statutory authority (*N.J.S.A. 18A:23-6*) to appoint auditors for charter schools failing to meet the statutory due date or invoke other administrative actions but the Commissioner does not have discretion to change a statutory requirement, such as the due date.

1. The CAFR

The CAFR is the charter school's official annual report. It should include all of the funds and account groups of the charter school. It is organized into three primary sections: 1) an introductory section, 2) a financial section and 2) a statistical section. If a charter school falls under the reporting requirements of the Single Audit Act of 1984, as amended by Single Audit Act Amendments of 1996 and revised OMB Circular A-133 and/or reporting requirements under NJOMB Treasury Circular Letter 04-04, the CAFR will also contain a single audit section. This report will strictly adhere to the Outline of the CAFR located at the end of this introduction. The report must include all sections, letters and exhibits as they apply to each charter school as well as any additional statements, schedules, and disclosures required under the circumstances of the charter school. The report must also include all applicable single audit opinion letters prepared by the charter school's auditor in the single audit section. The opinion letters must be in conformance with the applicable sample single audit letters located in section III – Chapter 2 of *The Audit Program*.

2. The Auditors' Management Report on Administrative Findings, Financial, Compliance and Performance

This separate report will serve as the auditors' report to management. This report must be submitted together with the CAFR to the Department of Education in order to comply with Finance Policy Bulletin 200-1. A sample Auditor's Management Report is located in Section III –Chapter 4.

3. Audit Summary Worksheet

The Audit Summary Worksheet (Audsum) diskette must be completed by the auditor and given to the charter school Board Secretary or Business Administrator. The Board Secretary/Business Administrator is responsible for carefully reviewing the reports generated by the Audsum diskette and signing off on the transmittal letter as to the accuracy of the information. The Board Secretary/Business Administrator is responsible for the transmission of the Audsum data via the DOENET to the Department of Education by the due date of the CAFR. This information is used by the Department of Education for a variety of purposes, including downloading into the actual column of the budget software issued by the department. **It is very important that Auditors and charter school personnel pay particular attention to the accuracy of the data. If data is resubmitted due to an error in the CAFR, revised pages of the CAFR must be sent.**

The procedure for submission of the CAFR and the AMR was adopted by the Department of Education to conform to the common practice for CAFR presentation followed by other school districts throughout the country. The two reports have separate, distinct purposes. The CAFR is the financial report presented to the board that is required for conformance with Governmental GAAP. The Auditors' Management Report is the auditor's report to the charter school management of his/her findings and recommendations as a result of the audit. In accordance with OMB Circular A-133, the CAFR will also be submitted to the Federal Audit Clearinghouse as part of the reporting package along with the data collection form in cases where a federal single audit of the charter school is necessary.

USOMB Circular A-133, and NJOMB Circular Letter 04-04, require that the Schedule of Findings and Questioned Costs contain, but not be limited to, reportable conditions in internal control over major programs, material non-compliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program, and known questioned costs which meet the threshold as defined in Circular A-133. N.J.S.A. 18A:23-9 states that the auditor "...report any error, omission, irregularity, violation of law, discrepancy or other nonconformity to the law, together with recommendations to the board of trustees." Accordingly, the Auditor's Management Report must include **all** findings, including any items contained in the Schedule of Findings and Questioned Costs.

The statutory deadline for submission will be strictly enforced. Charter School aid may be suspended consistent with N.J.S.A. 18A: 55-2 for any charter school with an audit report, including the Auditor's Management Report and the Audit Summary Worksheet Diskette, outstanding after the November 6, 2006 submission date.

The Commissioner will also consider exercising his statutory authority (*N.J.S.A. 18A: 23-6*) to appoint auditors for charter schools failing to meet the statutory deadline or invoking other administrative actions. This will apply to all late audits.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

New Jersey statute (N.J.S.A.18A:4-14) requires that charter schools maintain bookkeeping consistent with the generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The financial reporting requirements of GAAP include the issuance of a Comprehensive Annual Financial Report (CAFR).

The financial statements are the responsibility of the charter school's management. The General Accounting Office (GAO *Government Auditing Standards* (See the Introduction to this *Audit Program*) provide that an auditor may not audit financial statements prepared by that same auditor. The department recommends that charter school management and auditors give careful consideration to the independence standard and its impact on the auditors of the charter school financial statements.

Charter schools should reference the NJ Department of Education (NJDOE) website at www.state.nj.us/njded/finance/fp (click on GASB 34) for selected sample statements updated for GASB 34, including the basic financial statements and budgetary comparisons which are in excel files that can be downloaded by charter school staff. Information on Management Discussion and Analysis (MD&A) requirements and other topics related to GASB Statement No., 34 financial reporting are also available at that web site to assist auditors and district staff. **The illustrative statements and schedules are not intended to be boilerplate nor inclusive of every situation.**

The NJDOE, after consultation with the NJASBO GASB 34 Taskforce and the NJSCPA, requires that each governmental fund be treated as a major fund in the fund statements for GASB 34 presentation. Questions relating to GASB 34 implementation can be emailed to doecafr@doe.state.nj.us.

The format of the CAFR should adhere to the Outline and numbering of the exhibits as shown in the Outline on the following pages. If a section or exhibit is not applicable to the charter school, the notation "N/A" should be indicated against that item in the Table of Contents.

The CAFR includes the, Financial, Statistical and Single Audit Sections. The contents of each section are as follows:

Introductory Section – Although not required by GASB 34, this section is still used by the GFOA “Blue Book” and is intended to familiarize the reader with the organizational structure of the charter school and information useful to the reader to evaluate the charter school's financial condition. It is important that the letter of transmittal avoid duplicating information already provided in detail elsewhere in the CAFR (GASB 34, fn 7).

Financial Section - This section includes the 1) independent auditor's report, 2) MD&A, 3) basic financial statements including the charter school-wide statements (accrual basis for governmental and business-type activities), fund statements (modified accrual basis for governmental funds, accrual basis for proprietary funds and for fiduciary funds), and notes to financial statements, 4) Required Supplementary Information (RSI) other than MD&A including budgetary comparison schedules, 5) Other Supplementary Information including combining and individual fund statements, and additional schedules. Certain combining schedules may not be applicable. For example, if a charter school has only two programs in the Proprietary Fund, a combining schedule would not be necessary. Indicate by “N/A” when a schedule is not applicable.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

Statistical Section – This section is intended to provide CAFR users with a broader and more complete understanding of the charter school and its financial affairs than is possible from the financial statements and supporting schedules included in the financial section. GASB Statement No. 44 (GASB 44) revised the statistical schedules effective for the June 30, 2006 CAFRs. Sample schedules can be found on the NJDOE web site www.state.nj.us/njded/finance/fp (click on GASB 34) and the Outline of the CAFR has been changed to reflect these revisions. Statistical information to assist charter schools and auditors in preparing this section is posted on that website (click on Audit Information, and 2005-06 Audit Program).

Single Audit Section – This section includes independent auditor's reports on compliance and internal control, schedules of expenditures for federal and state grants, notes to the schedules of expenditures of federal and state grants, schedule of findings and questioned costs, and a summary schedule of prior audit findings. This information is required by OMB Circular A-133 and NJ OMB Circular Letter 04-04.

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

INTRODUCTORY SECTION

Letter of Transmittal
Organizational Chart
Roster of Officials
Consultants and Advisors

FINANCIAL SECTION

Independent Auditor's Report

Required Supplementary Information – Part I Management's Discussion and Analysis

Basic Financial Statements

- A. Charter School-wide Financial Statements
 - A-1 Statement of Net Assets
 - A-2 Statement of Activities
- B. Fund Financial Statements:
 - Governmental Funds:
 - B-1 Balance Sheet
 - B-2 Statement of Revenues, Expenditures and Changes in Fund Balance
 - B-3 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
 - Proprietary Funds:
 - B-4 Statement of Net Assets
 - B-5 Statement of Revenues, Expenditures and Changes in Fund Net Assets
 - B-6 Statement of Cash Flows
 - Fiduciary Funds:
 - B-7 Statement of Fiduciary Net Assets
 - B-8 Statement of Changes in Fiduciary Net Assets

Notes to the Financial Statements

Required Supplementary Information – Part II

- C. Budgetary Comparison Schedules
 - C-1 Budgetary Comparison Schedule – General Fund
 - C-1a Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (**if applicable**)
 - C-2 Budgetary Comparison Schedule – Special Revenue Fund

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT

Notes to the Required Supplementary Information

C-3 Budget-to-GAAP Reconciliation

Other Supplementary Information

D. School Level Schedules (if applicable):

- D-1 Combining Balance Sheet
- D-2 Blended Resource Fund – Schedule of Expenditures Allocated by Resource Type – Actual
- D-3 Blended Resource Fund – Schedule of Blended Expenditures – Budget and Actual

E. Special Revenue Fund:

- E-1 Combining Schedule of Revenues and Expenditures
Special Revenue Fund – Budgetary Basis

F. Capital Projects Fund:

- F-1 Summary Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis
- F-2 Summary Schedule of Project Expenditures

G. Proprietary Funds:

Enterprise Fund:

- G-1 Combining Statement of Net Assets
- G-2 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets.
- G-3 Combining Statement of Cash Flows

Internal Service Fund:

- G-4 Combining Statement of Net Assets
- G-5 Combining Statement of Revenues, Expenses and Change In Fund Net Assets
- G-6 Combining Statement of Cash Flows

H. Fiduciary Funds:

- H-1 Combining Statement of Fiduciary Net Assets
- H-2 Combining Statement of Changes in Fiduciary Net Assets
- H-3 Student Activity Agency Fund Schedule of Receipts and Disbursements
- H-4 Payroll Agency Fund Schedule of Receipts and Disbursements

OUTLINE FOR COMPREHENSIVE ANNUAL FINANCIAL REPORT**I. Long-Term Debt:**

- I-1 Schedule of Mortgage Obligations
- I-2 Schedule of Obligations under Capital Leases
- I-3 Debt Service Fund Budgetary Comparison Schedule

STATISTICAL SECTION (Unaudited)**Financial Trends**

- J-1 Net Assets by Component
- J-2 Changes in Net Assets
- J-3 Fund Balances – Governmental Funds
- J-4 Changes in Fund Balances – Governmental Funds

Revenue Capacity

- J-5 – J-8 N/A

Debt Capacity

- J-9 Ratios of Outstanding Debt by Type
- J-10 -12 N/A

Demographic and Economic Information

- J-13 Demographic and Economic Statistics
- J-14 Principal Employers

Operating Information

- J-15 Full-time Equivalent Charter School Employees by Function/Program
- J-16 Operating Statistics
- J-17 School Building Information
- J-18 Insurance Schedule
- J-19 General Fund, Other Local Revenue by Source
- J-20 Schedule of Allowable Maintenance Expenditures by School Facility

SINGLE AUDIT SECTION

- K-1 Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- K-2 Report on Compliance with Requirements Applicable to Each Major Program and Internal Controls Over Compliance in Accordance with USOMB Circular A-133 and New Jersey OMB Circular 04-04
- K-3 Schedule of Expenditures of Federal Awards, Schedule A
- K-4 Schedule of Expenditures of State Financial Assistance, Schedule B
- K-5 Notes to the Schedules of Awards and Financial Assistance
- K-6 Schedule of Findings and Questioned Costs
- K-7 Summary Schedule of Prior Audit Findings

SECTION I – GENERAL COMPLIANCE
CHAPTER 1

APPOINTMENT, SCOPE AND DECLARATIONS

Appointment of Auditor

N.J.S.A. 18A: 23-8 requires that an audit of the accounts of a charter school be made only by a registered municipal accountant or a certified public accountant of New Jersey who holds an uncanceled registration license as a public school accountant for New Jersey. In accordance with NJOMB Circular 04-04 charter school management must obtain the audit firm's latest external quality control review report (peer review) prior to appointing said firm for the annual audit.

A charter school board of trustees should refer to *N.J.A.C. 6A:23-2.2(i)*, for regulations on obtaining audit firm peer reviews (www.state.nj.us/njded/code/title6a/chap23/). The code requires that charter schools engage only licensed public school accountants who have had a peer review performed in accordance with the Government Auditing Standards (Yellow Book) and obtain a copy of the audit firm's peer review. The board of trustees is required to review the report prior to the engagement of the annual audit, and to acknowledge its review of the report in the minutes that authorizes the engagement of the public school accountant. Generally when a request for proposal (RFP) is issued for annual audit services, audit firms will submit their peer review with the RFP. A returning audit firm will generally submit their peer review with the engagement letter.

On June 25, 2003, the U.S. General Accounting office (GAO) released a new edition (2003) of Government Auditing Standards, commonly referred to as the Yellow Book. The new standards are applicable for financial audits and attestation engagements of periods ending on or after January 1, 2004 and for performance audits beginning on or after January 1, 2004. The 2003 Revision of the Yellow Book is available in electronic format at the GAO web site www.gao.gov. Printed copies of the 2003 Revision of the Yellow Book are available for purchase from the Government Printing Office. To order printed copies of Government Auditing Standards (2003 Revision) at a cost of \$17.00 per copy, please contact the Government Printing Office. To order printed copies of Government Auditing Standards (2003 Revision) at a cost of \$17.00 per copy, please contact the Government Printing Office, Superintendent of Documents at (202) 412-1800, or visit the GPO website at <http://bookstore.gpo.gov>. When ordering the document, please refer to jacket #300-672 or stock # 020-000-0284-1.

Section 3.52 of the 2003 Yellow Book requires an external peer review of their auditing and attestation engagement practices at least once every 3 years. Section 3.55 requires that this report be provided to the party contracting for the audit (i.e. charter school). Any firm that fails to provide the report is not in compliance with Government Auditing Standards.

The external quality control review determines whether the audit firm's internal quality control system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed. When deficiencies are found, the audit firm is expected to identify and take corrective measures to prevent the same types of deficiencies from happening in the future. Prior to appointing an audit firm for the annual audit, the charter school should carefully review the audit firm's latest external control review taking into consideration the type of report issued (unqualified, qualified or adverse). When the type of report issued is other than an unqualified opinion, charter schools should discuss the report with the auditor, taking into consideration the date of the report in relation to the audit period being contracted for, the nature of the noted deficiencies in

relation to the services being contracted for, and if the deficiencies have been corrected and when. Charter schools may also contact the AICPA Peer Review Team or the New Jersey Society of Certified Public Accountants with general inquiries concerning the AICPA Peer Review Program and for assistance in understanding the Peer Review Program.

Rules of Professional Conduct

The public school auditor must follow the rules of professional conduct required by N.J.A.C. 13:29-3 et seq. and promulgated by the Board of Accountancy, Department of Law and Public Safety.

Cooperation with the Auditor

Because the compensation of the auditor is determined by the amount of time required to complete the audit, the auditor should not perform routine office work. Charter school personnel are expected to perform the following actions and have certain documents ready in advance of the audit.

See Section III-6 for a copy of the Checklist. The Auditor Questionnaire incorporates those actions and documents listed in the Board Secretary/Administrator Questionnaire. Irregularities shown by answers given to questions in the Auditor Questionnaire must be covered by a comment and recommendation in the Auditor's Management Report.

Scope of Audit

The audit shall include an audit of the books, accounts and moneys and a verification of all cash and bank balances of the charter school, and of any officer or employee thereof, and of any organization of public school pupils conducted under the auspices of the charter school. The following funds and accounts must be examined:

1. General Fund
2. Special Revenue Funds
3. Capital Projects Funds
4. Permanent Funds
5. Enterprise Funds and Internal Service Funds
6. Trust and Agency Funds
7. Private Purpose Trust and Agency Funds
8. Student Activity Funds

The AICPA's Statement on Auditing Standards (SAS) No. 1 states that an auditor "has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud." SAS No. 99 establishes standards and provides guidance to auditors in fulfilling that responsibility, as it relates to fraud, in an audit of financial statements conducted in accordance with generally accepted auditing standards. Guidance includes additional inquiries of management, not just the business office, additional documentation of the auditor's work in consideration of fraud, and identifying and assessing risks of fraud – incentives/pressures, opportunities, and attitudes/rationalizations.

In May 2002 GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Effective for fiscal years beginning after June 15, 2003 it is recommended that charter school auditors consider the materiality of closely related organizations such as an education foundation or booster club, when determining whether to discretely present the statements of that organization in the charter school's CAFR as a component unit. Paragraph 6 of GASB 39 states, "It is a matter of

professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity."

The areas of responsibility concerning completion of the audit and timely submission of the CAFR, the Auditors' Management Report, the Data Collection Form (if applicable) and the Audit Summary Worksheet diskette are as follows:

Responsibility for the preparation of the CAFR rests with the charter school. It is understood that some charter schools may need assistance in preparing the CAFR. Arrangement for assistance should be negotiated between the charter school and the public school accountant. A clear understanding of the roles of each party should be reached as close to the start of the audit field work as possible.

Responsibility for the completion of the Audit Summary Worksheet diskette rests with the auditor. The charter school is responsible for the transmission of the 2005-06 Audsum to the DOE. The charter school is responsible for carefully reviewing the reports generated by the diskette and signing off on the transmittal letter as to the accuracy of the information. Signatures of both the auditor and School Board Secretary/Business Administrator are required. This information will be the source documents generating financial comparisons for the general public and for federal reporting.

The auditor's responsibility is to perform an audit for the purpose of rendering an opinion on the fairness of the basic financial statements. The audit is to be performed in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; performing tests as prescribed by the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996, USOMB Circular A-133, NJOMB Circular Letter 04-04 (which supercedes NJ OMB Cir 98-07) and audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey. The auditor is also responsible for reviewing the unaudited sections of the CAFR. Adjustments required as a result of the audit procedures performed should be reflected in the CAFR issued by the charter school. See Section II-SA for required submission of reports.

DECLARATION OF ACCOUNTANT

N.J.S.A. 18A: 23-9. Declaration of Accountant. "No person shall undertake the auditing of the accounts of any charter school unless he shall have qualified as a public school accountant for New Jersey upon proof that he is either a registered municipal accountant or a certified public accountant, of New Jersey, and by subscribing to the following declaration:

- a. That he is fully acquainted with the laws governing the fiscal affairs of charter schools of New Jersey and is a competent and experienced auditor; and
- b. That he will honestly and faithfully audit the books and accounts of any charter school when engaged to do so, and report any error, omission, irregularity, violation of law, discrepancy or other non-conformity to the law, together with recommendations, to the management of such charter school."

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SECTION I – GENERAL COMPLIANCE
CHAPTER 2

MEETINGS AND MINUTES

Meetings of Public Bodies – The Sunshine Law

In enacting the Open Public Meetings Act, the legislature declared that secrecy in public affairs undermines public faith in government and that the right of the public to witness in full detail all phases of the deliberation, policy formulation and decision-making of public bodies is vital to the proper functioning of the democratic process. (N.J.S.A. 10:4-6 et seq.)

In general, the statute requires that the public be given advance notice of and the right to attend meetings of public bodies and that all discussions and official actions, unless specifically exempted, take place in public.

Minutes must be kept of all meetings, which at a minimum must include the announcement of the presiding person at the commencement of the meeting, the time and place of the meeting, and the names of the members present, the subjects considered, the actions taken and the vote of each member on any items voted upon. The following should be detailed in the minutes:

- a. A list of all employees, salaries and wages approved by the board.
- b. The final approved budget.
- c. Details of the annual organization meeting of the board.
- d. Lists of claims approved for payment by the board.
- e. Summary of monthly financial statements of the board secretary/school business administrator and the treasurer..
- f. Authorization for advertising for bids, with summary of the bids received and subsequent award of same.
- g. Full detail of budget transfers, including affirmative vote by two thirds of board for applicable transfers.
- h. Capital Improvement Authorizations, Proposals, and/or Adoptions.
- i. Travel and expense reimbursement policy..
- h. Loan agreements.

SECTION I – GENERAL COMPLIANCE
CHAPTER 2

Minute Records

The proceedings of the meetings of the board of trustees should be recorded in a bound or an acceptable loose-leaf type minute book and signed by the by the charter school management. The auditor should review the minutes. This procedure is necessary to check on the actions of the board of trustees, particularly with respect to the submission of monthly financial reports, the approval of claims, adoption of the budget, budget amendments, advertisements for bids and other financial matters of importance to the auditor. Minutes must include as a minimum the requirements of the “Sunshine Law” per N.J.S.A. 10:4-6 et seq.

SECTION I – GENERAL COMPLIANCE
CHAPTER 3

CHARTER SCHOOL AID

The Charter School Act of 1995 requires that “the school district of residence shall pay directly to the charter school for each student enrolled in the charter school who resides in the district a presumptive amount equal to 90% of the per pupil amount for a specific grade level in the district.

Pursuant to N.J.S.A. 18A:36A-12 (c), the State provides direct funding to charter schools for the difference in the local levy funding to charter schools for districts for which the program budget is more than T&E.

On January 14, 2000, Chapter 385 Law of 1999 was approved to provide direct state funding to any charter school which operates a full-day kindergarten program and which is located in an Abbott district. The aid provided is in addition to all other funds to which the charter school is entitled pursuant to section 12 of P.L. 1995, c. 426 (C. 18A:36A-12). The law expired after the 2000-01 school year. However, funds are appropriated in the budget through budget resolution.

Pursuant to N.J.S.A. 18A:36A-12(d), first year charter school students who attended non-public schools and students that were home schooled last year are funded by the state with direct payments to the charter school.

Per budget appropriation language for fiscal year 2005-06, any charter school whose district of residence is an “Abbott” district for which the program budget is less than T&E, state funds have been appropriated for the gap. T&E Gap funds are provided by the state directly to the charter school.

Additionally, budget appropriation language for fiscal year 2005-06, appropriates technology aid funds which are provided directly by the State to the charter school.

A sample of the charter school aid payment schedule is included in Appendix A.

School Register

The school district of residence must enroll charter school students in the school register and treat them as resident students for purposes of state aid. The charter school’s responsibility is to ensure the attendance of those students enrolled in their school in accordance with N.J.A.C.6A:11-4.3. A student who has been absent 10 days for an unknown reason must be reported as a dropout and the charter school must immediately notify the school district of this condition in writing.

All copies of source documents related to the determination of state aid (i.e. Application for Free and Reduced Meals and Free Milk, workpapers listing all special education students by tier, workpapers listing bilingual education students) must be maintained in both the school district of residence and the charter school.

The auditor is required to review the charter school’s registers, workpapers and supporting documentation for all registered students for accuracy.

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CHAPTER 3

Enrollment Counts

Pursuant to N.J.A.C.6A:23-9 charter schools are required to conduct enrollment counts on October 15 and the last day of the school year. A charter school shall submit each count through the DOENet Enrollment Count System for the purposes of determining average daily enrollment. (See Appendix B) Accurate maintenance of the enrollment system is vital so that the resident districts can rely on the accuracy of the payment schedules.

The requirements for the auditors will be to conduct an audit of the two enrollment counts. **The importance of these counts was discussed previously concerning the fact that the school register is the source document for which revenue is derived in a charter school.**

The Schedule of Audited Enrollments is included in the Auditors' Management Report as a supplementary schedule and is subjected to the same auditing procedures applied in the examination of the charter school's basic financial statements.

Charter schools must complete the enrollment count submission, which documents the compilation of register data for the purposes of charter school aid calculation and provides an audit trail for the auditor to use as a basis for testing. Charter schools are required to prepare written internal procedures, which should provide a description of the count process for the four required enrollment counts. The procedures should describe how the count was taken, who was responsible for compiling the data, completing the enrollment count submission, and detail the various assigned responsibilities for collection of the data and the follow-up procedures to identify student information to be corrected in the subsequent count. The workpapers, original supporting documentation and internal procedures should be maintained on file for a period of seven years.

Sampling Methods/Sizes - Audit Procedure

Testing should include samples from each of the enrollment count dates, i.e. October 15, 2005, and the last day of school 2006. The sample selected for the enrollment submission will result in testing all the specifics to the student selected in that sample. The two enrollment submissions are based on actual enrollment into the charter school; therefore, the audit of both counts sampled will be verification of the number of days enrolled and agreement to the school register.

The auditor must audit 100% of the records over the two enrollment counts utilizing a “sampling without replacement” method. This means that once a student record is randomly selected for testing, that record is excluded from the sample pool for the subsequent counts. Utilizing this “non-replacement” method ensures that the auditor examines 100% of the student records. For example, if total charter school enrollment is 500 students, the October 15 sample is 250 out of the 500 records. The last day of school count sample is the remaining 250 students. The auditor should pay particular attention to students that have either enrolled into or transferred out of the charter school during the school year to ensure that they are included in the testing and that the enrolled days are accurate.

Note: Since student enrollment is the source data for charter school funding, auditors are advised to be diligent in verifying the accuracy of the information. Any discrepancies are to be documented and reconciled. Enrollment Count Submission (See Appendix B)

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CHAPTER 3

On Roll -

Samples from each enrollment count must be tested to verify that the number of pupils enrolled agrees with the associated number reflected on the charter school's workpapers. The auditor will attest to the number of days that the child was enrolled.

Special Ed/ Bilingual -

For each student tested where there was a submission of Special Ed/ Bilingual, the auditor must verify the documentation to support the classification and verify the number of days the services were rendered to that child.

Auditors are required to inquire as to the status of any special education student in outside placements. **NOTE: If a charter school student has been placed in a Private School for the Disabled, the auditor must:**

- 1. Verify that the IEP requires the private placement;**
- 2. Verify that the student is not reflected/listed in the DOEnet nor on the district's payment schedules. The financial costs for educating these students are borne by the school district of residence.**

Special Education Tiers

All educationally disabled students were to be reported in their appropriate special education "Tier" category (see below) based upon the student's eligibility category and not on the program they are receiving.

Educationally disabled students who are graded are assigned to a level in the "tier category" based on the following grade level table:

Grade Level (as of 10/14/05)	School
K-5	Elementary School
6-8	Middle School
9-12	High School

Educationally disabled students who are un-graded (Self-Contained) are assigned to a "tier category" based on the following age based table:

Age (as of 10/14/05)	School
10 and under	Elementary School
11-13	Middle School
14-21	High School

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Students reported by grade should not include any classified disabled students. All classified disabled students should be reported in their appropriate “Tier” category. Students must be listed in the appropriate Tier category based upon the student’s individualized education program (IEP). Please note that the school register is maintained by program type with an identification field to indicate a student’s classified disabled students on the DOE-Net by classification. **Classified disabled students are reported on the DOE-Net by the classification they are included in.**

Auditor’s Note – In respect of the confidentiality provision involving a student’s IEP, we recommend that the auditor not make photocopies of IEPs chosen as part of the test sample. The auditor may suggest that a representative of the charter school be present to ensure compliance with the aforementioned provision. Additionally, the charter school may require the auditor to sign the pupil access record to document the disclosure of this information.

Pursuant to N.J.A.C. 6A:14-4.7(a) special class programs are redefined as serving students with similar educational needs in accordance with their IEPs. The following tiers are described for audit evaluation.

Tier I - Includes the number of special education (SE) classified students receiving each related service (up to four per student). Related services pupils are pupils classified for other than speech-language services who receive related services including, but not limited to, occupational therapy, physical therapy, speech-language therapy, and counseling. Classified pupils shall be eligible to receive aid for up to four services under Tier I of the special education aid formula.

Tier II – Includes pupils not receiving Tier IV intensive services meeting the eligibility criteria for one of the following:

- Specific learning disabled
- Traumatic brain injury
- Cognitively impaired-mild
- Preschool disabled
- All classified pupils receiving services pursuant to chapter 46 of Title 18A in shared time county vocational programs in a county vocational school which does not have a full child study team and nonclassified students in state training schools or secure care facilities.

Tier III – includes pupils not receiving Tier IV intensive services meeting the eligibility criteria for cognitively impaired-moderate, orthopedically impaired, auditorily impaired, communication impaired, emotionally disturbed, multiply disabled, other health impaired or visually impaired and, nonclassified students in juvenile community programs.

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Tier IV – includes pupils classified as eligible for special education and students receiving intensive services. For the 2005-2006 school year, Tier IV students are students meeting the eligibility criteria for autistic or cognitively impaired-severe, and other students who receive one or more of the following intensive services that must be specified in the pupil's IEP:

1. Individual Instruction
2. Pupil: Teacher-Aide Ratio of 3:1 or Less
3. High Level Assistive Technology
4. Extended School Year (at least 30 days in addition to the school year)
5. Intensive Related Services
6. Interpreter Services
7. Personal Aide
8. Residential Placement for Educational Purposes, and
9. Individual Nursing Facilities

Auditor's Note – A student that has a special education classification **and** is receiving any one or more of the intensive services listed above (traced to a student IEP) should be reported in Tier IV and **not included** in Tier II or III. A Tier IV student can also receive Tier I service.

Private Schools

Pursuant to N.J.S.A.18A:36A-11(b) A charter school shall comply with the provisions of chapter 46 of Title 18A of the New Jersey Statutes concerning the provision of services to handicapped students; except that the fiscal responsibility for any student currently enrolled in or determined to require a private day or residential school shall remain with the district of residence.

Auditors are required to inquire as to the status of any special education student in outside placements. If a charter school student has been placed in a Private School for the Disabled, the auditor must: 1. Verify that the IEP requires the private placement 2. Verify that the student is not reflected/listed in the DOEnet nor on the district's payment schedules. The costs for educating these students are borne by the school district of residence.

Low-Income Students

Obtain the workpapers and verify that there are valid "Applications for Free and Reduced Price Meals" or "Free Milk" on file to support the number claimed for each school. The district and the charter school should have the documentation on file for free lunch information. Only those students who have been determined to be eligible for **Free Meals** (not reduced meals) or **Free Milk** under the National School Lunch Act and the Child Nutrition Act as of the last day of school prior to October 16 (October 14, 2005) are low-income students for the purposes of applicable charter school aid. A valid application is one, which contains all the required information and signatures. The paperwork should be filed in the charter school and the district. **It is the responsibility of the charter school to provide the district with the necessary documentation for purposes of state aid and submission of ASSA to the state.**

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Errors detected in income classifications during the testing of applications for the school lunch fund/child nutrition audit which impact the low income classifications, should be applied to the low-income count when applicable. Remember these students must be on the enrollment count as of the last school day prior to October 16 to be counted. The verified count must reflect all adjustments discovered during the above procedures. If the workpapers do not agree with the DOEnet reports, these variances must be reported on the Schedule of Audited Enrollments, as well.

It will be necessary to include any items of noncompliance or negative comments in the Single Audit section of the report, along with the appropriate recommendation.

Bilingual Education -- Bilingual education programs are provided to students identified as limited English proficient (LEP) to help them develop academic skills while acquiring English language skills. There are currently three programs as follows:

- Bilingual programs with content area instruction in the native language provided when there are 20 or more LEP students of a single language group in a charter school.
- ESL-only (ESL) programs are provided when there are 10 or more LEP students in a charter school.
- English Language Services (ELS) programs are provided when there are at least 1, but fewer than 10, LEP students in a charter school.

Program plans for Bilingual/ESL, ESL-only and English Language Services programs are submitted every three years. The current three-year cycle began in July 2005, and will end in 2008. All programs operate from September to June.

Bilingual education, ESL or English Language Services programs are provided to students identified as limited English proficient (LEP) by a state established standard on an English language proficiency test. The following students, who are enrolled in the charter school as of October 15, 2004, are eligible to be reported:

- Resident and nonresident students identified as Limited English Proficient (LEP), in accordance with N.J.A.C. 6A:15-1.3(c), who are participating in an approved bilingual, ESL, or ELS program and
- Students who continue to need and participate in bilingual, ESL or ELS program services on the basis of multiple indicators as per N.J.A.C.6A:15-1.10(b).

The number of eligible students must be supported by a listing which includes each student's name and the ID number of the register on which they are enrolled. LEP students counted in bilingual education cannot also be counted in a special education tier category.

Trace the LEP students selected to the registers to ensure that the students were on roll as of October 15. Verify that the charter school submitted an English Language Service, ESL, or a Bilingual/ESL plan to the department, which received approval.

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Charter schools may use one of three tests to identify students of limited English proficiency:

- Language Assessment Scales (LAS), published by CTB/McGraw Hill
- IDEA Proficiency Test, published by Ballard & Tighe Publishing Company or
- MAC II Test of English Language Proficiency, published by Touchstone Applied Science Associates.

To verify LEP eligibility for a student entering the program for the first time, first determine that the student falls below the language proficiency standard specific to the test (see the following pages) and meets at least one other indicator as per N.J.A.C. 6A15-1.3(b). Other indicators include the following:

- Reading level in English;
- Previous academic performance;
- Achievement on standardized tests in English; and
- Judgment of the teaching staff members responsible for the educational program of the student.

Note that the bilingual education code (N.J.A.C 6A:15-1.10) stipulates that LEP students can be exited from bilingual/ESL/ELS program services when they have demonstrated readiness to function successfully in an English-only program on the basis of their score/level on a language proficiency test and multiple indicators including, but not limited to those listed above. Thus, some students may be retained for program services even though their language proficiency test scores are at the standard. Charter schools may continue to report these students as LEP.

Auditors should compare the student's raw score to the state standard score for the appropriate grade level. If the student is above the standard score, auditors should ascertain that other multiple criteria were met by inquiry of school personnel and review of district documentation on the multiple criteria.

The Schedule of Audited Enrollments that is required to be included in the Auditors' Management Report includes a section for the bilingual category.

Further information can be found on the web site:
http://www.state.nj.us/njded/bilingual/resources/prof_tests.shtmlLanguage

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Proficiency Test Standards for Determining Limited English Proficiency

Language Assessment Scales (LAS) – CTB/McGraw Hill

Use the LAS Language Proficiency Index (LPI) to determine program placement.

LPI (RW/O)	Category	Description
1/2 1/3	LEPa	low-level R and W skills mid-level (limited) L and S skills
1/4 1/5	LEPb	low-level R and W skills high-level (proficient) L and S skills
2/2 2/3	LEPc	mid-level R and W skills mid-level (limited) L and S skills
2/4 2/5	LEPd	mid-level R and W skills high-level (proficient) L and S skills
3/2 3/3	LEPe	high-level R and W skills mid-level (limited) L and S skills
3/4	FEP	high-level R and W skills high-level (proficient) L and S skills

Standard

Any student that places below the FEP (Full-English Proficient) category and has at least one other indicator as per N.J.A.C. 6A:15-1.3(c) is limited English proficient.

Other indicators include the following:

- Reading level;
 - Previous academic performance;
 - Achievement on standardized tests in English; and
- Teacher judgment.

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IDEA Proficiency Test (IPT) - Ballard and Tighe Publishers

Use the IPT designations to determine program placement.

Oral Tests

- Non-English Speaker
- Limited-English Speaker
- Fluent-English Speaker

Reading Tests

- Non-English Reader
- Limited-English Reader
- Competent-English Reader

Writing Tests

- Non-English Writer
- Limited-English Writer
- Competent-English Writer

Standard

Any student who falls in the “limited” category or below, in any of the tests, oral, reading, or writing and has at least one other indicator as per N.J.A.C. 6A:15-1.3(b) is limited English proficient.

Other indicators include the following:

- o Reading level;
- o Previous academic performance;
- o Achievement on standardized tests in English; and
- o Teacher judgment.

Using Multiple Criteria for Program Entry and Exit

Charter schools must continue to use multiple indicators, as specified in code [N.J.A.C. 6A:15-1.3(b) and 6A:15-1.10(b)] to determine which students need English as a Second Language (ESL) and/or bilingual program support and which students can function independently in a monolingual English classroom. These indicators must be used for both identification of LEP students and for determining readiness to exit from bilingual/ESL/ELS program services.

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MACII Test of English Language Proficiency -Touchstone Applied Science Associates

Use the Standard Score Cut Points to determine program placement.

Standard Score Cut Points*				
Test Level	Grade	Fall	Spring	SEM**
Red	K	210	220	8
	1	566	588	14
Blue	2	548	564	12
	3	558	574	12
Orange	4	543	559	10
	5	556	569	11
Ivory	6	545	557	10
	7	551	562	10
	8	555	567	10
Tan	9	549	560	10
	10	558	570	11
	11	568	583	11
	12	580	593	11
*For grades 1-12, cut points are set for Total Battery scores. For grade K, cut points are set in terms of total Speaking and Listening scores.				

**The standard error of measurement (SEM) of a test is a measure of reliability that represents the amount by which a score may vary due to errors of measurement. Thus, the larger the SEM, the greater the likelihood that a student might be misclassified. The SEM can be used to establish a band within which errors are most probable. For students whose scores fall within the band defined by the cut score plus or minus one SEM (e.g., 539 to 559 for Fall, 9th grade), additional data should be used to corroborate the placements.

Using Multiple Criteria for Program Entry and Exit

Charter schools must continue to use multiple indicators, as specified in code (N.J.A.C. 6A:15-1.3b) and 6A:15-1.10(b)) to determine which students need English as a Second Language (ESL) and/or bilingual program support and which students can function independently in a monolingual English classroom. These indicators must be used for both identification of LEP students and for determining readiness to exit from bilingual/ESI/ELS program services.

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Use of the multiple indicators is particularly important when a student's test score is close to a cut point (as determined by the standard error of measurement (SEM). These other indicators include:

- Reading level;
- Previous academic performance;
- Achievement on standardized tests in English, and
- Teacher judgment.

Additional Audit Procedures:

In addition to the testing of enrollment reported, the public school accountant should also verify that the charter school maintains written internal procedures that provide a description of the enrollment count process. Source documents include signed registration forms, school register, student IEPs, free/reduced lunch forms.

These written procedures should include the following information:

- 1) How the count was taken,
- 2) Who was responsible for compiling the data and completing the enrollment count,
- 3) The various personnel assigned responsibilities for collecting the data
- 4) Procedures for verification of student registration with the local school district prior to enrollment in the charter school.
- 5) Procedures to ensure that all source documents such as signed registration forms, student transfer cards, "application for free or reduced lunch", verification for eligibility of bilingual services or IEPs are included in student files.
- 6) Student attendance procedures, including the use of the school register.
- 7) A procedure to ensure that the budget is revised to reflect changes in the charter school revenue.
- 8) Procedures for conducting the two enrollment counts, student additions and deletions, security procedures, location of DOE-Net manual, location of DOE final reports, reporting of information to the district and appropriate follow-up.
- 9) Follow-up procedures to identify student information to be corrected in the subsequent count.

The auditor is required to document any enrollment system findings/deficiencies in the Auditor's Management Report. If the charter school did not use the sample workpapers or develop an alternative audit trail, the auditor shall include a comment that the necessary verifications and sampling could not be performed and a recommendation that the workpapers be used or an alternative audit trail (which is acceptable to the auditor) be established for future audits. The auditor should include a comment and recommendation for any differences noted on the Schedule of Audited Enrollments.

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ADDITIONAL PROCEDURES FOR SCHOOL BASED MEDICAID REIMBURSEMENT PROGRAMS

The State of New Jersey, Department of the Treasury administers two separate and distinct Medicaid school reimbursement programs: Direct Service – Special Education Medicaid Initiative (SEMI) and Medicaid Administrative Claiming. Related services, evaluation services, and specialized transportation are SEMI activities for which a charter school may submit claims. A student's IEP is the beginning documentation for determining needed services. In addition, charter schools are required to have all necessary documentation on file for review to support all claims for services performed as indicated in Chapter IV-4, "Service Descriptions and Documentation Requirements" of the SEMI handbook. The SEMI handbook has been updated and the revision, issued in the spring is 2006, is effective June 1, 2006. The Public Consulting Group (PCG) is the vendor that the Department of Treasury selected to provide billing services for SEMI and MAC. Effective October 1, 2005, charter schools began documenting services via PCG's Easy TRAC system. EasyTRAC is a web based application used to capture related services encounter information. See Chapter 5, "Service Documentation Requirements" for the documentation required when using Easy TRAC. The contact at PCG is Florie Wong (617) 426-2026.

Audit procedures applied involve testing to determine that such documentation is being maintained by charter schools. Charter schools were reminded again of the importance of maintaining the proper documentation via letter issued by the Department of the Treasury dated June 11, 2003. See the next page for a copy of the letter. Auditors should also consider the Medicaid assistance when planning the single audit. The Schedule of Federal Expenditures of Federal Awards included in the Single Audit chapter of The Audit Program includes the Medicaid Assistance Program as a line in the general fund.

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State of New Jersey
OFFICE OF THE STATE TREASURER
PO Box 002
TRENTON NJ 08625-0002

JAMES E. MCGREEVEY
Governor

JOHN E. MCCORMAC, C.P.A.
State Treasurer

TO: School Administrators

FROM: John E. McCormac, State Treasurer
Department of Treasury *John E. McCormac*
William L. Librera, Commissioner *WL*
Department of Education

DATE: June 11, 2003

SUBJECT: Special Education Medicaid Initiative (SEMI)

We are writing to remind you of the requirements for billings under the Special Education Medicaid Initiative (SEMI) program.

As you know, SEMI allows both the State and the local school districts to receive federal dollars to offset the cost of providing medical services, such as therapy services to Medicaid eligible children in the schools.

Enclosed is a copy of the SEMI Handbook which outlines all the requirements that must be met for a school to receive the federal dollars generated under SEMI.

The SEMI Handbook describes various documentation requirements necessary for the implementation of the SEMI program. Throughout the handbook there are items needed to support the claiming of services. They include such things as maintaining parental consent forms and IEPs to indicate that certain services are claimable.

When reviewing the SEMI handbook, pay special attention to Chapter IV: Service Descriptions and Documentation Requirements. This section specifies what activities are considered billable under SEMI and describes evaluations and related services. In addition, this section indicates what documentation is necessary to support a claim for reimbursement. These include such things as physicians' orders for nursing services and physical therapy, as well as the importance of the IEP in determining why a service has been recommended.

If you have any questions regarding the SEMI program, please contact Lori Bemby of MAXIMUS. Ms. Bemby can be reached by telephone at (800) 618-7364 extension 200 or via email at loribemby@maximus.com.

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CHAPTER 4

BUDGET & TRANSFERS

The Budget

Preparation of the budget is one of the most important functions of the charter school management. The approved budget should be detailed on the 108 line item budget summary form prescribed by the Department of Education in the New Jersey Charter School Application. All revenue data and expenditure data items and their classifications are explained in a narrative description with the budget summary in the charter school application. The State of New Jersey's fiscal year-end is June 30; however, some charter schools have programs that extend into July and August. The following options are available to the charter schools:

- 1) Establish July 1 to June 30 as the fiscal year and defer revenue to cover expenses for July and August that relate to the previous school year.
- 2) Use alternative fiscal year (i.e. 9/1- 8/30, 8/1-7-31 etc.) to correctly match expenses with revenue. If the charter school's fiscal year ends within the first quarter of the State's subsequent fiscal year (i.e. July 1-September 30) it is acceptable to incorporate the fiscal year of the charter school, in lieu of the State's fiscal year-end. (Codification of Governmental Accounting and Financial Reporting Standards 2600.113). The fiscal year should always be at a month end, i.e. if the school year ends 7/15, then the fiscal year would run 8/1 to 7/30.

Once the option is chosen, the charter school cannot elect to change their option. In addition, in the first year of operation, a charter school will submit two reporting periods; the startup period, January 1 to beginning of the fiscal year, and a twelve-month fiscal year.

Budget Transfers

Line-item transfers must be made whenever the line item is in danger of going into a deficit condition. A charter school board of trustees may transfer amounts necessary to effectuate the approval of encumbrances or expenditures from line item accounts with available appropriation balances and pursuant to N.J.A.C. 6A:23A-2.3. A board of trustees may by resolution, designate the chief school administrator to approve transfers between meetings of the board. Transfers made by the chief school administrator shall be reported to the board, ratified and duly recorded in the minutes subsequent meeting of the board, but not less than monthly.

In situations where a charter school charges for meals or receives state or federal meal subsidies, the activity of its food service operations must be accounted for in an enterprise fund. Charter schools have been provided accounting guidance in Chapter 14 of the GAAP technical systems manual. All costs related to the program must be shown in the enterprise fund. Any board contribution, including the payment of certain salaries or other identified specific expenditures should be budgeted and expended as a transfer to cover deficit on line 75, Miscellaneous Support Services expenditures. For CAFR presentation, the budgeted and actual transfer should be presented as a general fund operating transfer.

No transfers should be made from the general fund to the special revenue fund for expenditures in excess of the grant budget. In this instance, the Board's contribution to the program should be coded to the applicable general fund expenditure account, with the exception of benefits.

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No transfer may be made under N.J.S.A 18A:22-8.2 from appropriations or surplus accounts for:

- (a) Capital Reserve Fund
- (b) Items classified as current expenses
- (c) Items classified as capital projects
- (d) Interest and debt redemption charges
- (e) Items classified as general fund except to other items so classified.

Transfers from appropriations or surplus accounts may be made within the general fund. When specifically approved by the Commissioner, transfers of surplus may be made at any time by board resolution and may be made within the original annual budget. Transfers of appropriations may be made by board resolution at any time during the fiscal year.

Under the revised finance and business services code (*N.J.A.C.6A:23-8.6(b)(1)*), adopted on August 5, 2002, regular charter schools cannot transfer unreserved, undesignated fund balance such that the remaining unreserved general fund balance is less than three percent of the charter school's proposed budget "without a written request and detailed justification to, and approval from, the County Superintendent." Charter schools required to request approval under this provision should submit the written request and justification to the County Superintendent prior to requesting their board of trustees' approval of the surplus transfer. Only after such written approval is provided should a charter school board of trustees adopt a board resolution to transfer undesignated fund balance for the approved purpose.

Interfund balances

Charter school-wide statements (accrual basis)

GASB 34, paragraph 58 requires eliminations of interfund receivables and payables in the *Statement of Net Assets* except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the *Statement of Net Assets* as receivable from and payable to external parties rather than as internal balances. Paragraph 59 requires eliminations in the *Statement of Activities* to remove the "doubling-up" effect of internal service fund activity.

Funds statements (modified accrual basis)

For governmental funds, interfund transfers should be reported as other financing uses in the funds making the transfers and as other financing sources in the funds receiving transfers. In proprietary funds, revenues from transfers should be reported separately after non-operating revenues and expenses. (GASB 34 Paragraph 112).

Interfund Note disclosures:

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraphs 14 and 15 require specific disclosures on interfund balances and transfers.

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“Governments should disclose in the notes to the financial statements the following details about interfund balances reported in the fund financial statements:

- a) Amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b) The purpose for interfund balances
- c) Interfund balances that are not expected to be repaid within one year from the date of the financial statements

Governments should disclose in the notes to the financial statements the following details about interfund transfers reported in the fund financial statements:

- a) Amounts transferred from other funds by individual major fund, non-major governmental funds in the aggregate, non-major enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- b) A general description of the principal purposes of the government’s interfund transfers
- c) The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
 - 1. Do not occur on a routine basis – for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant
 - 2. Are inconsistent with the activities of the fund making the transfer – for example, a transfer from a capital projects fund to the general fund.”

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BIDS & CONTRACTS/PURCHASING

Bids & Contracts

P.L. 2005, c 271 (Pay-to-Play Law) was signed into law on January 5, 2006. A key element of the new law allows charter school boards to adopt their own pay-to-play laws. A second, equally important element requires a new disclosure for certain purchases over \$17,500 that are not publicly bid. Local Finance Notice 2006-3 provides guidance to assist boards of education and their legal counsel in complying with the law. That notice, and other pay-to-play documents are posted on the DLGS Pay-to-Play website at www.nj.gov/dca/lgs/p2p.

N.J.S.A.18A:18A-1 et seq. (Public School Contracts Law) was amended by P.L.1999, c.440. The associated rules were drafted and promulgated by the Department of Community Affairs (DCA), with consultation from the Commissioner of Education. A copy of the law along with additional materials on the revisions to the law and the associated rules can be found at www.state.nj.us/njded/pscl.

Highlights of N.J.S.A. 18A:18A (Public School Contracts Laws), amended

N.J.S.A. 18A:18A-2 contains definitions for terms used throughout N.J.S.A. 18A:18A-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (p) the term ‘competitive contracting’, which is defined as “the method described in *N.J.S.A. 18A:18A-4.1* through *18A:18A-4.5* and in rules promulgated by DCA at *N.J.A.C. 5:34-4* of contracting for specialized goods and services in which formal proposals are solicited from vendors; formal proposals are evaluated by the purchasing agent or counsel or school business administrator; and the board awards a contract to a vendor or vendors from among the formal proposals received.” Also, subsection (aa) defines the term ‘concession’ to exclude vending machines.

N.J.S.A. 18A:18A-3(a) sets forth the bid threshold and requires award by board resolution. The statute was amended in 1999 to provide for an even higher threshold when there is a “Qualified Purchasing Agent” in the charter school as defined at *N.J.A.C. 5:34-1.1* and certified upon approval of an application submitted to DCA. Pursuant to *N.J.S.A. 18A:18A-3(b)*, the bid threshold was raised to **\$21,000**, effective July 1, 2005. For charter schools with a qualified purchasing agent, the bid threshold was raised to **\$29,000**.

“When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of **\$21,000**, the contract may be awarded by a purchasing agent when so authorized by resolution of the board without public advertising for bids and bidding therefore, except that the board may adopt a resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations.”

“If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L.1971, c.198 (C.40A:11-9), the board may establish that the bid threshold may be up to **\$29,000**. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.”

N.J.S.A. 18A:18A-3(b) – provides for the base contract period.

“Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of *N.J.S.A. 18A:18A-5* may be awarded for a period not exceeding 12 consecutive months.”

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N.J.S.A. 18A:18A-4 sets forth the requirement for advertising, and was amended to address the disqualification of a vendor. P.L. 2002, c.90 amended this statute to permit a board of trustees to disqualify a low bidder of any board or, in the case of a contract for a school facilities project, the New Jersey Economic Development Authority has had a “prior negative experience” with the bidder.

- “Every contract for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the board to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this chapter or specifically by any other law.
- The board may, by resolution approved by a majority of the board and subject to subsections (b) and (c) of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the board finds that any board, or in the case of a contract for a school facilities project, the New Jersey Economic Development Authority, has had prior negative experience with the bidder within the past 10 years, as reported in a contractor evaluation submitted pursuant to *N.J.S.A.* 18A:18A-15 or in a school facilities project performance evaluation submitted pursuant to regulations of the Department of the Treasury or section 62 of P.L. 2000, c 72 (C.18A:7G-36) as appropriate.”

N.J.S.A. 18A:18A-4.1 provides boards of trustees the ability to use competitive contracting in lieu of public bidding for the procurement of specialized goods and services above the bid threshold for the following purposes:

- proprietary computer software;
- hiring of a non-profit entity or not-for-profit entity under Title 15A;
- services performed by an energy services company;
- telecommunications transmission or switching services;
- specialized machinery or equipment of a technical nature;
- food services

N.J.S.A. 18A:18A-4.4 provides boards of trustees the authority to pass a resolution authorizing the use of competitive contracting. “In order to initiate competitive contracting, the board shall pass a resolution authorizing the use of competitive contracting each time specialized goods or services enumerated in section 45 of P.L. 1999, c.440 are desired to be contracted.”

N.J.S.A. 18A:18A-5 contains exceptions to the requirement for advertising and includes the below exceptions; this section should be referenced by the auditor for more details on these and other changes.

- expenses for travel/conferences;
- support/maintenance of proprietary computer software/hardware;
- purchase of goods/services at rates set by Universal Service Fund – FCC;
- student funded and benefited projects, e.g. yearbooks, class rings, class gift;
- food services pursuant to procedures established by the New Jersey Department of Agriculture; and
- vending machines for food and drink.
- Goods/services for which the lowest of three quotes is at least 10% less than the state contract price (see subsection (e) for award requirements)

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N.J.S.A. 18A:18A-7 addresses emergency contracts that exceed the bid threshold, and requires the person in charge of the facility where the emergency occurs to notify the purchasing agent in writing of the circumstances and the need to invoke such action. Pursuant to this statute, charter schools must also comply with the implementing regulations at *N.J.A.C.* 5:34-6.1 and *N.J.A.C.* 6A:26-3.16

N.J.S.A. 18A:18A-10 permits the use of state contracts, and is amended by P.L. 1999 c.440 to require a board resolution for authorization for a charter school to do so.

N.J.S.A. 18A:18A-15 addresses general specifications for goods/services and was amended by P.L. 1999 c.440 primarily in the following areas:

- establishes a new requirement for a prospective bidder to challenge bid specifications in writing no less than three business days prior to bid opening.
- subsection (c) expands the discrimination clause to include creed, color, ancestry, and marital status, affect ional or sexual orientation, etc.
- allows that goods/services purchased by funds from a bequest, legacy or gift that specifies a manufacturer or vendor may be treated as an exception to the bidding requirement.

N.J.S.A. 18A:18A-21 addresses the requirements for advertising bids, and sets forth requirements for notification of revisions or addenda to advertisements or bid documents. P.L. 2005, c.191 amended *N.J.S.A.* 18A:18A-21 and makes uniform the period of notice for revisions or addenda to advertisements for bids for certain contracts. The law provides that notices of revisions or addenda shall be published no later than seven days, Saturdays, Sundays and holidays excepted, prior to the date for acceptance of bids.

N.J.S.A. 18A:18A-22 is establishes a list of criteria as bases on which a board may reject all bids.

N.J.S.A. 18A:18A-37 describes the awarding of contracts below the bid threshold and was amended by P.L. 1999, c.440. Subsection (a) describes the requirements for awarding contracts below the bid threshold.

“For all contracts that in the aggregate are less than the bid threshold but 15 percent or more of that amount, and for those contracts that are for subject matter enumerated in subsection (a) of *N.J.S.A.* 18A:18A-5, except for paragraph (1) of that subsection concerning professional services and paragraph (3) of that subsection concerning work by employees of the board, the purchasing agent shall award the contract after soliciting at least two competitive quotations, if practicable.”

Subsection (c) describes the requirements for small purchases.

“If authorized by the board by resolution, all contracts that are in the aggregate less than 15 percent of the bid threshold may be awarded by the purchasing agent without soliciting competitive quotations.” This section should be referenced by the auditor for more details on these and other changes..

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Charter schools must comply with *N.J.S.A.* 18A:18A-37 and 42.1 and 7 CFR. 210.16 when entering into School Food Service Management Company Contracts.

Pursuant to *N.J.S.A.* 18A:39-3, the threshold for bidding of transportation contracts is \$15,000. 18A:18A:49.1 states “the provisions of this chapter shall not apply to contracts for the transportation of pupils to and from school, which contracts are regulated by Chapter 39 of this Title.”

N.J.S.A. 18A:18A-42 allows contracts of 3 years or less to include extension provisions for no more than one two-year or two one-year extensions, provided the board adopts a resolution complying with a set of conditions. The cost increase in extended contracts is limited to index rate percentages as posted by DCA at www.state.nj.us/njded/psc1. No contract can be extended so that it runs more than a total of five consecutive years.

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The following are basic categories of such extensions with the corresponding aggregate terms. The statute should be referenced for specific limitations and restrictions.

<u>ITEM</u>	<u>AGGREGATE TERMS (YEARS)</u>
(1) Fuel for Heating	3
(2) Fuel/Oil for Vehicles	3
(3) Thermal Energy (Approved by Board of Public Utilities)	40
(4) Removal of Snow and Ice	3
(5) Garbage Collection	3
(6) Data Processing Services	7
(7) Insurance	3
(8) Leasing of Equipment in accordance with rules and regulations of the State Board of Education	5
(9) Sale and lease-back of textbooks and non-consumable instructional materials	5
(10) Voice, Data, Transmission and Switching Services	5
(11) Driver Education	3
(12) Goods and Services for the purpose of conserving energy	15
(13) Any single project for construction, reconstruction or rehabilitation of any public building for length of time authorized for completion of actual construction.	Length of Time Authorized.
(14) Laundry Service	3
(15) Purchases under contract awarded by Division of Purchase and Property in Treasury	Term not to exceed term of Contract

N.J.S.A. 18A:18A-45 addresses manner and method of sale of personal property, and requires, in addition to the board resolution, a sealed bid or public auction process; it also provides that if the estimated value exceeds 15 percent of the bid threshold, it must be sold at public auction. The auditor should refer to this section for additional information and changes.

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Review of Purchase Orders

Auditors should refer to the Hotline issued by the Department on September 16, 2003 and available at the website: <http://www.nj.gov/njded/finance/fp/audit/0304/po.pdf>. A copy is also in Section I, Chapter 8 of The Audit Program.

As discussed in Section I, Chapter 8, “Year-End Procedures”, charter schools should have ready for the auditor a listing of each type of order:

- 1) those that represent orders for which the goods have been received or the services have been rendered at fiscal year-end but have not been paid (accounts payable);
- 2) those that represent orders which will be honored in the subsequent year within 60-90 days of year end;
- 3) all others.

Orders in category 1 must be charged against the current year budget, the related encumbrances reversed, and a liability (accounts payable) established. Orders in category 2 will be rolled over into the next fiscal year and will be shown in the fiscal year-end general fund balance sheet as a reserve for encumbrances. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year end. In most cases, any other orders should be canceled.

As documentation of the review, charter schools must provide the auditor with separate listings of the category 1 orders and category 2 orders for each governmental fund. The total of each category 1 list must agree with the fiscal year-end balance in the general ledger balance sheet account for accounts payable of the applicable fund. The total of each category 2 list must agree with the fiscal year-end balance in the general ledger balance sheet account for the reserve for encumbrances of the applicable fund. (Note: Additional entries are necessary for outstanding special revenue fund purchase orders as explained in Section I, Chapter 8. Also, for CAFR presentation, in the special revenue fund, the reserve for encumbrances is grouped with deferred revenue in the GAAP balance sheet). Local school auditors must review the lists and their related documentation and challenge the propriety of the charter school’s classifications. Particular attention must be given to the subsequent liquidation of the orders to determine if an audit adjustment is necessary for additional orders that should be canceled.

(Note: Additional entries are necessary for outstanding special revenue fund purchase orders as explained in Section I, Section 8. Also, for CAFR presentation, in the special revenue fund, the reserve for encumbrances is grouped with deferred revenue in the GAAP balance sheet.)

A purchase order represents a commitment against an appropriation. Purchase orders should not be issued without an underlying contract or actual order of goods or services. Blanket purchase orders should not be issued. The auditor’s review of orders for blanket purchase orders should not be limited to purchase orders outstanding at fiscal year-end. The issuance of blanket purchase orders at any time during the year should be reported by the auditor as a finding and recommendation in the Auditors’ Management Report.

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Credit Cards

Use of credit cards for purchase of goods or services is prohibited. Statutory requirements direct how boards of trustees may purchase goods and services and establish the procedures to follow in paying for the purchase of goods and services. Purchases made by charter schools must comply with N.J.S.A. 18A:18A-1 et seq., the Public School Contracts Law. The payment of claims by a charter school must comply with N.J.S.A. 18A:19-1 et seq., “Expenditure of Funds; Audit and Payment of Claims.” These regulations are intended to ensure that competitive bidding procedures are followed and certifications regarding the authenticity of claims are received. Pursuant to N.J.S.A. 18:19-13 and N.J.A.C. 6A:23-2.9, a charter school may establish a petty cash fund at the beginning of each fiscal year or as needed, for the purpose of making immediate payments of comparatively small amounts. Large purchases should be made through the contractual order system.

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CHART OF ACCOUNTS/EXPENDITURE CLASSIFICATIONS

Prescribed System of Double-Entry, GAAP Reporting and Bookkeeping Records

N.J.S.A. 18A:4-14 requires charter schools to maintain bookkeeping consistent with the financial accounting and classifications established by the National Center of Educational Statistics (NCES) and with generally accepted accounting principles (GAAP), which includes a double-entry, self balancing set of accounts and records. The New Jersey Administrative Code, *N.J.A.C.* 6A:23, Subchapter 2 prescribes further regulation regarding the accounting.

N.J.A.C. 6A:23-2.2(g) requires that the charter school management adopt a chart of accounts that is prepared in conformity with the guidelines established by the Department of Education consistent with NCES reporting requirements. The minimum level of detail (minimum outline) for expenditure accounts to be maintained in the chart of accounts for compliance with Department of Education and federal reporting requirements is presented in Appendix A of *The Uniform Minimum Chart of Accounts (Handbook 2R2) for New Jersey Public Schools*. This updated Chart of Accounts (COA) can be found on the web site <http://www.nj.gov/njded/finance/fp/af/coa/> and is effective July 1, 2004.

The majority of the revisions in the updated COA represent changes to conform to the National Center for Educational Statistics (NCES) reporting requirements. The most significant change includes the creation of new functions 251 (support services – central services) and 252 (support services – administrative information technology). Function 251 should include all costs for fiscal and human services, purchasing, distribution, printing and school business administration. Function 252 should include all costs for school IT systems, including administration and supervision of technology related personnel and systems. Prior to 2004-05, costs in these two functions were accounted for in function 290. Other changes include the creation of a new program for preschool (program 105), new and revised revenue accounts and several new object codes as reflected in the updated Appendix A of the COA.

N.J.A.C. 6A:23-2.11(a)2 states that when a board of trustees adopts an expanded chart of accounts, the board shall adopt a policy concerning the controls over appropriations for line item accounts which exceed the level of detail required under the minimum outline. If a charter school fails to adopt such a policy, the restrictions regarding overexpenditure of funds apply to line item accounts that exceed the minimum level of detail.

The Department of Education publication entitled *GAAP for New Jersey School Districts, A Technical Systems Manual* must be utilized in the evaluation of a charter school's maintenance of the double-entry system of accounting in accordance with *N.J.S.A.* 18A: 4-14. The Department of Education does not prescribe a standard format for the ledgers and journals used to maintain the accounting records, but instead gives general descriptions of each in the manual. Charter school auditors must be adequately familiar with the publication to perform the annual audit. Additional references for GAAP accounting include the Government Finance Officers Association (GFOA) *Governmental Accounting, Auditing and Financial Reporting*, commonly known as the "Blue Book" and Governmental Accounting Standards Board (GASB) statements and pronouncements.

N.J.A.C. 6A:23-2.7 requires that charter school board of trustees which contract for electronic data processing bookkeeping services obtain an audit of the internal controls of the service company or agency as prescribed by *Statement of Auditing Standards No. 70*, as amended by SAS 88, of the American Institute of Certified Public Accountants.

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Expenditure Classifications and Reporting

Expenditures must be reported in the proper fund in the minimum outline format. As explained in Section I, Chapter 8, two sets of financial data are presented in the CAFR for the special revenue fund - budgetary basis, which includes encumbrances as expenditures for the special revenue fund only, and GAAP.

Under GASB 34, the *Statement of Revenues, Expenditures, and Changes in Fund Balance* (B-2) reflects the governmental funds and the special revenue fund revenues and expenditures on the GAAP modified accrual basis.

The *General Fund Budgetary Comparison Schedule* (C-1) reflects the GAAP modified accrual basis for revenues with the exception of the last state aid payment which is recognized as revenue for budgetary purposes but deferred for GAAP purposes, and GAAP for expenditures.

The *Special Revenue Budgetary Comparison Schedule* (C-2) reflects revenues and expenditures on a budgetary basis where encumbrances at fiscal year end are recorded as expenditures and corresponding revenue is recognized. The last state aid payment is recognized as revenue for budgetary purposes. GAAP expenditures are calculated as budgetary expenditures plus June 30 prior year encumbrances less June 30 current year encumbrances. The information presented in the schedules of federal expenditures and state financial assistance is on the budgetary basis.

The original budget as well as the final approved budget as of June 30th must be reported in the budgetary comparison schedules. The variance is required by NJ DOE as is the transfer column between the original and the final.

Expenditures must be checked and verified, properly authorized by the board and recorded in the minutes. Expenditure classifications must be in accordance with *The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2003 Edition)*, and the terms and conditions of the grant award. Auditors should refer to Appendix F “Minimum Chart of Accounts Descriptions by Budgeting Line Item under Each Program/Function” in the *2005-06 Budget Guidelines* and use it as a reference tool in the coding of expenditures. Also included in the *2005-06 Budget Guidelines* in the section “Detailed Appropriations Grid” and it should also be used as a reference tool.

The auditors’ procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed chart of accounts and supporting guidance (e.g. Appendix F of the 2005-06 Budget Guidelines). Improper coding of expenditures is considered noncompliance with *N.J.A.C. 6A:23-2.2(g)* and noted instances must be reported in the Auditor’s Management Report. Auditors are directed to test the proper coding of expenditures during their review of the charter school’s internal controls and the application of standard testing methods, as well as during compliance testing and the performance of single audit procedures. That is, each general fund or special revenue fund expenditure transaction tested for those procedures must also be tested for propriety of classification. Exceptions should not be reported for instances where the department has not given specific coding guidance in the aforementioned documents. The sample should be expanded if significant coding problems are noted.

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Reclassification of Miscoding

Auditors are required to include a comment about expenditure coding in the Auditor's Management Report summarizing their sample selection process, conclusions reached and additional procedures performed, if any. Auditors are also required to include a summary of expenditure classification test results in the Audit Questionnaire indicating the dollar value of items tested, dollar value of exceptions noted and the error rate.

When a coding error is noted by the auditor, the expenditure must be reclassified for financial statement presentation, even if the reclassification will put the proper line item account into a deficit position and regardless of materiality of the error. The appropriation would not be reclassified with the expenditure unless there is a clear indication that the charter school had misbudgeted the appropriation. In cases where it is clearly supported by budget development workpapers that a budgeting error was made, the appropriation should be reclassified to the proper line item account. Accordingly, if the reclassification creates a line item deficit, the auditor's finding in the Auditor's Management Report must include an explanation that the deficit was not due to intentional overspending of the line item, but rather was generated due to a reclassification of expenditures to the proper line item account. In cases where there clearly was a miscoding in the development of the budget as well as the expenditure, the finding must include an explanation that the expenditure was miscoded and misbudgeted, and the appropriate entries were made to reclassify both to the proper line item account. Board action is not required. The rationale for and documentation of procedures performed and conclusions reached should be included in the auditor's workpapers and available for review by the department.

In addition, special revenue fund coding errors are not considered questioned costs if the expenditures are approved under the terms and conditions of the grant award. The miscoding must be reported in the Auditor's Management Report in the expenditure coding comment. The comment must clearly state that the expenditures were consistent with the approved award and the changes were the result of miscoding. Charter School final grant close-out reports should reflect the corrected coding of expenditures, including reclassifications of the original budgeted figures, if it was determined that the approved budget was based on the miscoding and the reclassification was made by the auditor in the CAFR. Charter schools should submit with the grant closeout report a copy of the auditors' expenditure coding comment to support the propriety of the reclassification in the closeout report. The charter school does not need grantor approval for the reclassifications made by the auditor. However, if the auditor determines that any expenditure was not consistent with the approved grant award, the cost must be included in the Auditor's Management Report, and if the finding meets the audit finding criteria as defined in Circular A-133 and/or NJOMB Circular Letter 04-04, as applicable, it must be included in the Schedule of Findings and Questioned Costs in the Single Audit Section of the CAFR. Such miscoding will thus appear in two places in the Auditor's Management Report.

Specific to the charter schools, the Budget Summary statement was designed to keep financial reporting requirements at a minimum, while at the same time, enabling charter schools to be in compliance with monitoring standards and maintain comparability to public school financial data. All revenue data and expenditure data items and their classifications are explained in the Budget Summary Key of the Charter School Application. There are four major expenditure categories to be reported in the general fund: Instruction, Administration, Support Services, and Capital Outlay. These four categories are required in reporting expenditures in the budget form and the CAFR. For additional references, refer to the State Department of Education's publication entitled *The Uniform Minimum Chart of Accounts for New Jersey Public Schools*, which is available from the publication office. The charter school is encouraged to use

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the account structures and codes referenced in this publication, but it is not considered mandatory. What is mandatory is the reporting of costs in the detail as prescribed in the 108 line item budget summary.

The activity related to each restricted grant, from either local, state or federal sources must be accounted for in the special revenue fund in the minimum outline format. Summarized information related to all state and federal grants and entitlements must be reported in the schedules of expenditures of federal awards and state financial assistance.

The auditor's procedures should include tests of the appropriate classification of expenditures in accordance with the prescribed budget summary. Expenditure coding errors noted will be reclassified for financial statement presentation in accordance with the guidance provided under Section V - Conducting the School Audit. Auditors are required to include a comment about expenditure coding in the Auditors' Management Report.

N.J.A.C. 6A:23-2.11 Budgetary Controls and Overexpenditure of Funds

The budget status certification requirements, which are explained in detail in Division of Finance Policy Bulletin 200-11, must be fully implemented or else appropriate comments and recommendations must be included in the annual audit report.

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CHAPTER 8

YEAR-END PROCEDURES

Closing Out for GAAP

Based on the suggested accounting procedures illustrated in the *GAAP for New Jersey School Districts, A Technical Systems Manual (Technical Systems Manual)*, throughout the year charter schools record transactions on a cash basis. Other revenues are recognized upon the receipt of cash and expenditures are recognized when the invoice is paid. As such, certain adjustments are necessary to convert the records to the modified accrual basis and to the accrual basis for reporting under GASB 34 for inclusion in the charter school's annual report, the Comprehensive Annual Financial Report (CAFR). The public school accountant as part of the audit procedures will review these adjustments.

Various reference materials are available to assist charter schools in making the required adjusting and closing entries. Sample adjusting and closing entries for each fund are contained in *The Technical Systems Manual*. This *Audit Program* includes a discussion of general procedures that should be followed for all funds, standard adjusting and closing entries, as well as the additional entries required in the special revenue fund. Applicable pages of the *Technical Systems Manual* are referenced for more specific examples of entries to be made. *The Audit Program* was not meant to be all-inclusive. Charter Schools should reference the aforementioned materials for the specific entries that must be made in other funds. Charter schools should also consult their software vendors to determine how the illustrated entries are entered into their system.

It should be noted that the closing entries for the general fund as shown in *The Technical Systems Manual* on page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The revised entries close the actual revenues against the budgeted revenues and the actual expenditures against the budgeted appropriations.

General Procedures for All Funds (Other than Special Revenue)

1) Review the Status of Purchase Orders Open at Year-End:

All prior year purchase orders should be closed or canceled as of fiscal year-end. Only under extreme extenuating circumstances should any balance be remaining in account XX-754 "Reserve for Encumbrances - Prior Year" which was used to track the liquidation of purchase orders from the prior fiscal year that were rolled over to the current fiscal year. Under GAAP accounting the differences between the purchase order and the actual invoice amounts are flowed through the expenditure account where the order was originally recorded, increasing or decreasing the available balance in that appropriation account.

Under normal circumstances, the amounts reflected in the "Reserve for Encumbrances - Current Year" account should represent orders that are expected to be liquidated within a reasonable period. Open purchase orders must be reviewed to determine their status.

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The first step is to identify those purchase orders for which the goods/services have been received/rendered yet payment has not been made prior to year-end. These items must be charged as an expenditure against the current year budget and established as an accounts payable at year-end. The accounts payable is recorded at the invoice amount. If the invoice has not been received the amount must be estimated. When payment is made in the subsequent year, the accounts payable account will be charged rather than the expenditure account. The next step is to review any remaining purchase orders to identify those orders which will be honored the following year (i.e.- the goods/services are still necessary) and which will be canceled (i.e.- the goods/services are no longer necessary). As a general rule, for other than construction contracts, the liquidation of these orders should be within 60 to 90 days of year end. All purchase orders that are no longer considered necessary and/or will not be honored within that time frame in the subsequent year must be canceled. No entries are necessary to carry open purchase orders as encumbrances in the current fiscal year. The entries to adjust the subsequent year's budget will be made in that year. The charter school should have ready for the auditor a listing of each type of order - 1) those that represent accounts payable and 2) those that represent orders that will be honored in the following year. Auditors are urged to perform a thorough review and analysis of open purchase orders in conformity with the Year-End Encumbrance Hotline issued September 16, 2003. That Hotline is included at the end of this section.

2) Accrue Any Revenues That Have Been Earned and Not Collected:

Charter schools are instructed to accrue revenues and establish receivables at the beginning of the fiscal year for those revenues whose collection amounts are known. Charter schools may also have established accounts receivable balances in the prior year for items that should have been collected by year-end. At year-end entries must be made to accrue revenues and establish receivables for any revenues that have been earned but are uncollected as of year-end in order to bring the accounting records into accordance with GAAP. An example would be interest earned on investments. Charter schools must also determine the collectability of any uncollected accounts receivable balances as of year-end. Uncollected charter school aid balances should be investigated.

3) Analyze Balance Sheet Account Balances:

Charter schools must be able to provide their auditors with the detail of what comprises each balance sheet account at year-end. In other words, for each asset and liability account, the charter school should prepare a schedule (list) of what individual amounts comprise the total balance shown in the general ledger account. Accounts receivable amounts should be detailed by what is owed to the charter school by whom and for what; each investment should be listed along with the identity of the trustee(s) or Institution(s) holding such assets; accounts payable amounts should be detailed by amount and vendor, etc. During the preparation of these analyses, the charter school should address the propriety of the amounts being included on the schedules, taking into consideration such things as which accounts should have debit balances and which accounts should have credit balances. If an account balance cannot be supported it should be investigated and adjusted appropriately. Part of the public school accountant's audit will be to examine and test these detailed schedules (lists).

The presentation of prior period adjustments under GAAP is not made directly to fund balance. The correction of immaterial errors is recorded as miscellaneous income or expenditures of the current year. The correction of material errors is shown in the balance sheet as a prior period adjustment, with a restatement of the opening beginning year fund balance. The use of prior year's surplus in the current year budget is tracked in the recapitulation of balances section of the board secretary's report. No

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adjustment is made to fund balance for the estimated use of surplus. The actual use of surplus is adjusted to fund balance as part of the year-end closing entries. As such, the preliminary (pre-closing) fiscal year-end balance in the fund balance account should equal the fiscal year-end balance per the prior year audit.

Included in the Board Secretary's audit checklist of documents to have available for the audit, Chapter III-6 of this *Audit Program*, is a schedule of capital assets to support the amount reported on the line "Capital Assets, net" (cost of the assets less accumulated depreciation) in the governmental funds and the business like activities columns of the *Statement of Net Assets* (A-1) . Similarly, the charter school staff is required to maintain a schedule of long-term debt as described in paragraph 81 of GASB Statement No. 34. The schedule of long-term debt supports the balance presented for the current and noncurrent portions of long-term debt on the *Statement of Net Assets* (A-1).

Charter school staff will need to prepare a conversion from the modified accrual fund balance presentation in the *Governmental Funds Balance Sheet* (B-1) to Net Assets presentation in the *Statement of Net Assets* (A-1).

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State of New Jersey

DEPARTMENT OF EDUCATION
PO Box 500
TRENTON, NJ 08625-0500

JAMES E. MCGREEVEY
Governor

WILLIAM L. LIBRERA
Commissioner

HOTLINE

TO: Chief School Administrators
School Business Administrators/Board Secretaries
Public School Accountants

FROM: Richard Rosenberg 
Assistant Commissioner, Division of Finance

SUBJECT: Year-End Encumbrances

DATE: September 16, 2003

For the current 2002-03 fiscal year audit as well as future audits, all public school accountants are asked to give utmost consideration to encumbrances on the school district's books at June 30, 200X through a thorough review and analysis of open purchase orders.

Open purchase orders at June 30, 200X should be classified into the following two categories for review and reclassification:

1. Category one represents purchase orders for which the goods have been received or the services have been rendered at June 30th that have not been paid. These purchase orders must be expensed in the current audit period, the related encumbrances reversed, and a liability (accounts payable) established. If the invoice has not been received the amount must be estimated. In accordance with GAAP, an expenditure is recorded when goods are received or services are rendered.
2. Category two represents purchase orders which will be honored in the subsequent year. These purchase orders will be rolled over into the next fiscal year and will be shown in the June 30th general fund balance sheet as a reserve for encumbrances. Per NCGA Statement 1, paragraph 91 "encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result **if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.**"

These purchase orders must be checked for validity, which means, the purchase orders must have a valid contractual agreement (i.e. contain an actual order of goods or services) in place at June 30, 200X. Blanket purchase orders do not constitute valid purchase

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Chief School Administrators
School Business Administrators/Board Secretaries
Public School Accountants
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orders. As a general rule, for other than construction contracts, the liquidation of these orders should be within 60-90 days of year-end.

In reviewing the 90-day cut-off period during the year-end audit, purchase orders that existed at June 30, 200X but were not liquidated by September 30 should be canceled and not included in the June 30 reservation of fund balance, with the exception of capital or other long term projects. Open purchase orders for items that are: 1) no longer considered necessary; 2) not substantiated with a valid contract; or 3) aged (regardless of materiality) and have been on the books for over 90 days should also be canceled and not included in June 30 reservation of fund balance.

In addition, per review of the agreed upon procedures performed by several accounting firms for the Abbott school districts that were recently concluded, on several occasions it was noted that expenditures for 2003-04 were being improperly encumbered in the 2002-03 fiscal year. Districts may not have open encumbrances for items related to the next year such as salaries, insurance premiums, etc.

District's account payable, accruals and year-end expenditure cut-off should be thoroughly reviewed with attention given to ensure that valid expenditures for the current year are captured and expenditures for the subsequent year are recorded in the proper accounting period.

For further guidance on year-end reporting and encumbrances please review, Section I – General Compliance, Chapter 5, "Bids & Contracts/Purchasing" and Chapter 8, "Year-End Procedures" of the 2002-03 Audit Program.

Any question related to this hotline memorandum should be addressed to Beth Brooks of the Office of Fiscal Policy and Planning at 609-633-2766, or via email at beth.brooks@doe.state.nj.us.

RR\BB\Y:\Audit Program\2002-03 Audit Program\Purchase Orders.doc

C: Gordon MacInnes

Albert A. Monillas

J. Michael Rush

Judith Weiss

Glenn Forney

Beth Brooks

County Superintendents

County School Business Administrators

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Standard Adjusting Entries

To Establish Accounts Payable:

(**Note:** The reversal of the encumbrance and reserve is made in the amount of the original order; the accounts payable is recorded in the amount of the invoice, which may differ.)

Dr. Reserve for Encumbrances (XX-753)

Cr. Encumbrances (XX-603)

Reverse Encumbrance (with appropriate reversals made in the expenditure subsidiary ledger)

Dr. Expenditures (XX-602)

Cr. Accounts Payable (XX-421)

Establish Payable (with the appropriate entries being made in the expenditure subsidiary ledger.)

To Cancel Purchase Orders:

Dr. Reserve for Encumbrances (XX-753)

Cr. Encumbrances (XX- 603)

Reverse Encumbrance (With the appropriate entries being made in the expenditure subsidiary ledger.)

To Accrue Revenues:

Dr. Applicable Accounts Receivable (XX-1XX)

Cr. Revenues (XX-302)

Record Revenue (With the appropriate entries being made in the revenue subsidiary ledger.)

Closing Entries

Closing Budgetary Accounts:

Two entries are needed to close the temporary budgetary accounts to fund balance.

- Estimated revenues, budgeted fund balance, and actual revenues are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance.
- Budgeted appropriations, expenditures, and encumbrances are reversed, with the difference being recorded as an increase or decrease in unreserved fund balance.

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As an example, after recording the adjusting entries, the general fund trial balance would appear as follows:

<u>A/C</u>	<u>DEBIT</u>	<u>CREDIT</u>
101 Cash in Bank	\$ 117,000	
106 Cash Equivalents	1,134,576	
111 Investments	570,600	
114 Interest Receivable on Investments	25,400	
142 Intergovernmental A/R - Federal	65,000	
301 Estimated Revenues	49,929,100	
302 Revenues		\$49,911,100
303 Budgeted Fund Balance	568,300	
421 Accounts Payable		60,000
601 Appropriations		50,497,400
602 Expenditures	49,893,100	
603 Encumbrances	65,000	
753 Reserve for Encumbrances - Current Year		65,000
770 Unreserved Fund Balance		1,834,576

The entry to close the budgeted revenues against the actual revenues is:

Dr. Unreserved Fund Balance (XX-770)	586,300	
Dr. Revenues (XX-302)	49,911,100	
Cr. Estimated Revenues (XX-301)		49,929,100
Cr. Budgeted Fund Balance (XX-303)		568,300

(With the appropriate entries being made in the revenue subsidiary ledger.)

The entry to close the budgeted appropriations against the actual expenditures and encumbrances is:

Dr. Appropriations (XX-601)	50,497,400	
Cr. Expenditures (XX-602)		49,893,100
Cr. Encumbrances (XX-603)		65,000
Cr. Unreserved Fund Balance (XX-770)		539,300

(With the appropriate entries being made in the expenditure subsidiary ledger.)

In this example, the actual use of fund balance (deficit) was \$47,000, which is calculated as the net debit to Unreserved Fund Balance (\$586,300 less \$539,300) in comparison to the budgeted deficit of \$568,300.

Each year the budgetary accounts are closed with these entries. The opening balances of those accounts in the subsequent year are always zero. The other balance sheet accounts are not zeroed. No journal entry is needed to open the books. The unaudited ending balances from the prior fiscal year will be carried forward and used as opening balances. If necessary, these amounts will be adjusted for the result of findings of the audit when the CAFR is issued.

SECTION I – GENERAL COMPLIANCE**CHAPTER 8****Other Issues/Entries****Internal Accounting Records**

The June secretary's report may be prepared using preliminary amounts. Charter schools do not have to include final adjusting and closing entries in the report. The report should include normal monthly adjusting entries. Charter schools must remember to run final reports, ledgers, journals, etc. prior to posting the closing entries for the year.

Capital Assets and Long Term Debt

Under GASB 34, the general fixed assets account group and the general long-term debt account group are not reported in that format. Charter schools should refer to the *Codification of Governmental Accounting and Financial Reporting Standards* as of June 30, 2005 (GASB Codification), Section 1400 (Reporting Capital Assets), Section 1500 (Reporting Liabilities) and Section C60 (Compensated Absences) for further guidance. The following discussion is a brief overview and is not intended to address the conversion at the end of the year.

School wide Financial Statements (Accrual Basis)

The balance for capital (fixed) assets net of accumulated depreciation is reported in the charter school *Statement of Net Assets* (Exhibit A-1). Depreciation is reported in the *Statement of Activities* (Exhibit A-2). Liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year. This includes compensated absences. Charter Schools and auditors should refer to GASB Codification C60 for guidance on calculating the liability for compensated absences and reporting the amount due within one year separately from the amount due in more than one year in the Statement of Net Assets.

Fund Financial Statements (Modified Accrual Basis)

Compensated absences liabilities are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditures should be recognized, as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. Charter schools and auditors should refer to GASB Codification C60 for additional guidance on reporting in the governmental funds statements.

Opening Balances

At the beginning of each year, the certified budget amounts are adjusted for the outstanding purchase orders from the prior year that will be honored in the subsequent year. This is done by making the following entries at beginning of year:

Dr. Encumbrances (XX-603)
Cr. Appropriations (XX-601)

Dr. Reserve for Encumbrances - Current Year (XX-753)
Cr. Reserve for Encumbrances - Prior Year (XX-754)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

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These entries increase the budgeted appropriations, reestablish the encumbrances as a restriction of the adjusted current year appropriations, and transfer the reserve for encumbrances balance from the current year account into the prior year account. The entries have no impact on the available balance and there is no need to issue new purchase orders for these prior year items.

Reference Materials

The below listed pages in the Technical Systems Manual should be referenced for specific examples of adjusting and closing entries in the various funds. As previously noted, the closing entries for the general fund as shown in the Technical Systems Manual on page 5.16 were revised in Q.153 of the June 11, 1993 questions and answers papers. The sample entries on page xxxxxxxx of this document reflect the revised entries.

General Fund	pp. 5.14 to 5.16, 5.18, 5.20 to 5.21, 5.23 to 5.24
Special Revenue Fund	pp. 9.12 to 9.13
Capital Projects Fund	pp. 11.8 to 11.10
Debt Service Fund	p. 10.3
Enterprise / Internal Service Fund	pp. 14.12 and 14.15
Trust and Agency Funds	pp. 15.2 to 15.4, 15.7 and 15.10

Charter schools will be recording book entries for the capital assets and debt in the account groups as in the past. However, for the charter school statements, entries will be needed to convert from the modified accrual basis to the full accrual basis. As noted above, schedules of both capital assets and long-term debt will enable the charter schools to record these balances on the statements. The capital asset balance, net of accumulated depreciated is reported and the offsetting entry would be to "Net Assets, Invested in Capital Assets, Net of Related Debt". Similarly, debt related to the capital assets is reported as a liability, and the offset is to the Net Assets, Invested in Capital Assets, Net of Related Debt". Other long-term liabilities (e.g., compensated absences) are reported in the liabilities section of the *Statement of Net Assets*, and the offset is either "Unrestricted Net Assets", or "Restricted Net Assets" if the accrual is expected to be paid using restricted funds.

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Special Revenue Fund

When doing the year-end adjusting and closing entries, the following points should be noted.

- The special revenue fund is unique as the accounting records are maintained on the budgetary basis rather than on the GAAP basis. The budgetary basis differs from GAAP in that the budgetary basis recognizes encumbrances as expenditures in the year an order is placed, whereas the GAAP basis does not.
- Budgetary revenues must equal expenditures, as funds are not considered earned until they are obligated.

The accounting treatment for expenditures in excess of the grant award differs from the manner explained on page 9.1 of the *Technical Systems Manual*. **There are no transfers from the general fund to the special revenue fund for excess expenditures.** The appropriate account in the general fund budget should be charged for the excess.

Throughout the year charter schools record grant revenue on a cash basis. As such, in addition to the standard accruals for revenues and expenditures at year end, additional entries are needed to adjust the revenues recorded when the cash was received for any amounts that are deferred to the next fiscal year and any amounts that are due back to the grantor. Entries may also be necessary to establish receivables for grants where the expenditures have been funded through interfund loans and reimbursement has not been received from the grantor. Examples of the calculation of these amounts are included in Chapter 9 of the *Technical Systems Manual* and should be carefully reviewed.

Charter schools must perform the year-end review of special revenue fund purchase orders that was discussed earlier in this document and make the necessary entries as illustrated on page I-8.5 to cancel any unnecessary orders and to reverse the reserve for encumbrances and record the expenditures and the accounts payable related to the unpaid orders for which the charter school has received goods and services as of year-end. An additional entry will be needed to record the orders that will be honored in the following year as current year budgetary basis expenditures. Remember that under the budgetary basis used in the special revenue fund, an item is chargeable to the grant and considered an expenditure when it becomes an obligation.

GAAP expenditures are calculated as budgetary expenditures plus prior year-end encumbrances less current year-end encumbrances. (Note: This calculation must be done separately for each of the three expenditure categories included in the *Statement of Revenues, Expenditures and Changes in Fund Balances*: instruction, undistributed expenditures, and capital outlay.) The balance sheet figures are GAAP. No reserve for encumbrances is shown. Any balance in that account should be grouped with deferred revenue for CAFR presentation. The final general ledger balances are budgetary basis amounts. Entries are not made to the general ledger to derive GAAP amounts. Again, the examples contained in Chapter 9 of the *Technical Systems Manual* should be reviewed.

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The charter school *Statement of Net Assets* and the *Statement of Activities* (accrual basis) include the special revenue fund in the governmental activity column. The modified accrual basis special revenue fund is included in the governmental funds *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balances*. The *Budgetary Comparison Schedule – Special Revenue Fund* will reflect the revenues and expenditures of this fund on the budgetary basis.

Encumbrances will be a reconciling item for both revenues and expenditures in the Note to Required Supplementary Information – *Budget to GAAP Reconciliation*. This note reconciles the budgetary basis revenue and expenditures to the amounts reported in the governmental funds *Statement of Revenues, Expenditures, and Changes in Fund Balances*. See Section III-3 for illustration of this note.

When analyzing balance sheet accounts in the special revenue fund it should be noted that for budgetary basis there is no fund balance in the special revenue fund. Any excess of cash received over expenditures is either deferred revenue or due to grantor. Adjustments should have been made to the certified budget to spend the beginning year deferred revenue and deferred revenue subsequently recognized as revenue during the year. An example of the journal entries necessary to budget and recognize the deferred revenue is provided in Chapter 9 of the *Technical Systems Manual* and should be carefully reviewed.

A credit balance appearing in the cash account must be investigated to determine if interfund loans need to be recorded. Charter schools should also ensure that certificates of debit and credit have been properly recorded during the year. It should be ascertained that any necessary adjustments have been recorded.

Special Revenue Fund Adjusting Entries

The following entries assume that grant revenue was recorded on a cash basis throughout the year.

Assuming that the cash received exceeds the total of the expenditures and the encumbrances, the entry would be as follows:

- If carryover is allowed:

Dr. Revenue (20-302)
 Cr. Deferred Revenue (20-481)

- If carryover is not allowed:

Dr. Revenue (20-302)
 Cr. Intergovernmental Accounts Payable (20-41X)

(With the appropriate entries being made in the revenue subsidiary ledger.)

In situations where the total of the expenditures and encumbrances exceeds the cash received, the entry would be:

Dr. Intergovernmental Accounts Receivable (20-14X)
 Cr. Revenue (20-302)

(With the appropriate entries being made in the revenue subsidiary ledger.)

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In addition to the entries necessary to establish the accounts payable for the goods/services that were received as of year-end, an entry is also needed to recognize the encumbrances outstanding at year-end as expenditures for the preparation of budgetary-basis financial statements:

Dr. Expenditures (20-602)
 Cr. Encumbrances (20-603)

(With the appropriate entries being made in the expenditure subsidiary ledger.)

Special Revenue Fund Closing Entries

The general ledger will be closed based on preliminary amounts. Adjustments, which arise as a result of the liquidation of the year-end encumbrances during applicable close-out periods, will be reflected in the CAFR; however, the adjusting entry will be recorded in the subsequent year's general ledger. The Technical Systems Manual should be referenced for examples of the liquidation of encumbrances during the close-out period. The closing entries to be recorded in the special revenue fund are as follows:

Dr. Appropriations (20-601)
 Cr. Estimated Revenues (20-301)

Dr. Revenues (20-302)
 Cr. Expenditures (20-602)

(With the appropriate entries being made in the revenue and expenditure subsidiary ledgers.)

Special Revenue Fund - Other Issues/Entries

As mentioned earlier, when preparing the GAAP financial statements, the reserve for encumbrances does not appear in the balance sheet, but instead is grouped with (added to) the deferred revenue amount and appears on that line of the GAAP modified accrual basis *Balance Sheet* and accrual basis *Statement of Net Assets* in the basic financial statements section of the CAFR.

Opening Balances

At beginning of year, an entry is required to transfer the reserve for encumbrances balance from the current year to the prior year account as illustrated below. The reserve for encumbrances - prior year (20-754) account is used to track the liquidation of the prior year encumbrances that were outstanding as of year-end, acting similar to accounts payable. The rollover of these orders does not require an adjustment to the subsequent year's certified budget since the orders were charged as expenditures during the current year under the budgetary basis.

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To transfer the reserve for encumbrances balance from the current year to the prior year account the entry would be:

Dr. Reserve for Encumbrances - Current Year (20-753)
Cr. Reserve for Encumbrances - Prior Year (20-754)

Grant Year

Grant revenues and expenditures must be identifiable based on award year and as to original, summer, or carryover allocation. The chart of accounts is structured to allow for unique program codes to be assigned to the various grant allocations that may be running simultaneously. Although specific program codes are not listed for summer programs, charter schools must select a program code from the ranges provided to account for the summer portion of grants that overlap fiscal years. During the year, charter schools should remember to budget and account for grant activity in the appropriate program codes, making adjustments to the revenue and expenditure subsidiary ledgers to account for budget revisions necessary as a result of the shift of funds between the original, summer, and carryover allocations. This information is necessary for the completion of the Schedules of Financial Assistance included in the Single Audit Section of the CAFR. Chapter 9 of the *Technical Systems Manual* provides an illustration of the shift of funds into a carryover period. The same entries apply to the shift of funds to a summer program.

All Funds

In summary, charter schools should make the appropriate adjusting and closing entries. The public school accountant may suggest changes to the amounts reflected in the charter school's figures based on the results of his/her audit. In those instances, the auditor should provide the charter school with the necessary post-closing adjusting entries to correct the opening balances. Charter schools are reminded that the entries shown above represent what should be recorded in the accounting records. How those entries are actually made differ from software system to software system. It is advised that charter schools have a clear understanding of how to key those adjusting and closing entries into their accounting software package.

SECTION II – SPECIFIC COMPLIANCE
FUND 10 - GENERAL FUND

CHARTER SCHOOL BOOKKEEPING

The State Board of Education has, in accordance with law, prescribed a uniform double-entry system of bookkeeping for use in all charter schools and is authorized to compel its use. (*N.J.S.A.* 18A: 4-14, *N.J.A.C.* 6A:23-2.1).

The Uniform Minimum Chart of Accounts for New Jersey Public School (2003 Edition) (COA) was originally published in 1992 with the latest update effective July 1, 2004. The revision incorporates updates made through annual revisions to the budget guidelines and in general accounting memos. The revision in part reflects the National Center for Education Statistics (NCES) reporting requirements and necessary changes for reporting under GASB 34 financial reporting model and is available on the web site <http://www.nj.gov/njded/finance/fp/af/coa/>.

GASB 34 distinguishes between funds which benefit the charter school (Permanent funds) and those for which the charter school acts as a trustee or agent, but where the resources benefit other governments, individuals, or organizations (Trust or Fiduciary funds). Governmental fund 50 should be used to record the accounting for Permanent funds. Expendable trusts that benefit the charter school should be included in the Special Revenue fund. The Proprietary funds use fund 60 and fund 70, and the Fiduciary funds use funds 80, 90, and 95. When the charter schools use the reimbursable or pay as you go method for unemployment, the Unemployment Compensation Trust would be included in fund 80. The resources and changes in net assets of a private purpose scholarship fund would also be reported here. The fiduciary funds are not included in the accrual level statements (A – series) since they do reflect assets of the charter school.

The following is a listing of funds for reporting using the revised chart of accounts structure effective July 1, 2004.

**Governmental
Funds**

Fund 10	(General fund)
Fund 20	(Special revenue fund)
Fund 30	(Capital projects fund)
Fund 40	(Debt service fund)
Fund 50	(Permanent fund)

Proprietary Funds

Fund 60	(Enterprise fund)
Fund 70	(Internal service fund)

Fiduciary Funds

Fund 80	(Trust funds)
Fund 90	(Agency funds)
Fund 95	(Student activity funds)